



An integrated Approach to the classification of public environmental expenditure



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Environmental (climate change) expenditures

- Environmental expenditures in the public sector refers to spending aimed at funding environmental (climate change) policy responses such as mitigation, adaptation, and management of climate-related disasters and risks.
- Identifying and evaluating these expenditures is essential to assess governments' environmental policy and fiscal risks from extraordinary expenditures.
- Presently governments classify their public expenditure using the COFOG (Classification of Functions of Government) which is an international standard classification that organises public government expenditure into functional categories of interest to policymakers`.
- However, given its limitations governments are increasingly turning to environmental budget tagging. A survey (2022) shows that two-thirds of OECD countries have adopted green budgeting, an increase of approximately 60% since the 2021 survey.



COFOG structure

N°	Functions of Government
01	General Public Services
02	Defense
03	Public Order and Safety
04	Economic Affairs 04.2 Agriculture (e.g., Genetically modified seeds) 04.3 Fuel and Energy: Electricity (Petrol & gas, solar energy) 04.4 Mining, Manufacturing, Construction
05	Environmental Protection
06	Housing and Community Amenities
07	Health
08	Recreation, Culture and religion
09	Education
10	Social Services

N°	Environmental Functions
05.1	Waste management
05.2	Wastewater management
05.3	Pollution abatement
05.4	Protection of biodiversity and landscape
05.5	R&D Environmental protection
05.6	Environmental protection n.e.c.



Relationship between COFOG and CEPA

N°	COFOG 5: Environmental Functions
05.1	Waste management
05.2	Wastewater management
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N°	CEPA
3	Waste management
2	Wastewater management
	1. Protection of ambient air and climate 4. Protection and remediation of soil, groundwater and surface water 5. Noise and vibration abatement 7. Protection against radiation
6	Protection of biodiversity and landscapes
8	Research and Development
9	Other Environmental protection Activities

COFOG maps on to (now old) CEPA





Main problems with COFOG

- Problem 1: No clear groups/classes for major environmental issues
 - No specific groups/classes for climate change mitigation and adaptation -
- Problem 2: The COFOG does not consider multiple purposes or impact
 - COFOG does not recognise activities (positive or negative) that have additional impacts. E.g. forestation, energy infrastructure (solar & thermal)
- Problem 3: No consideration for the reason behind some expenditures
 - No treatment of defensive expenditures (risk reduction, emergency, losses and damages)



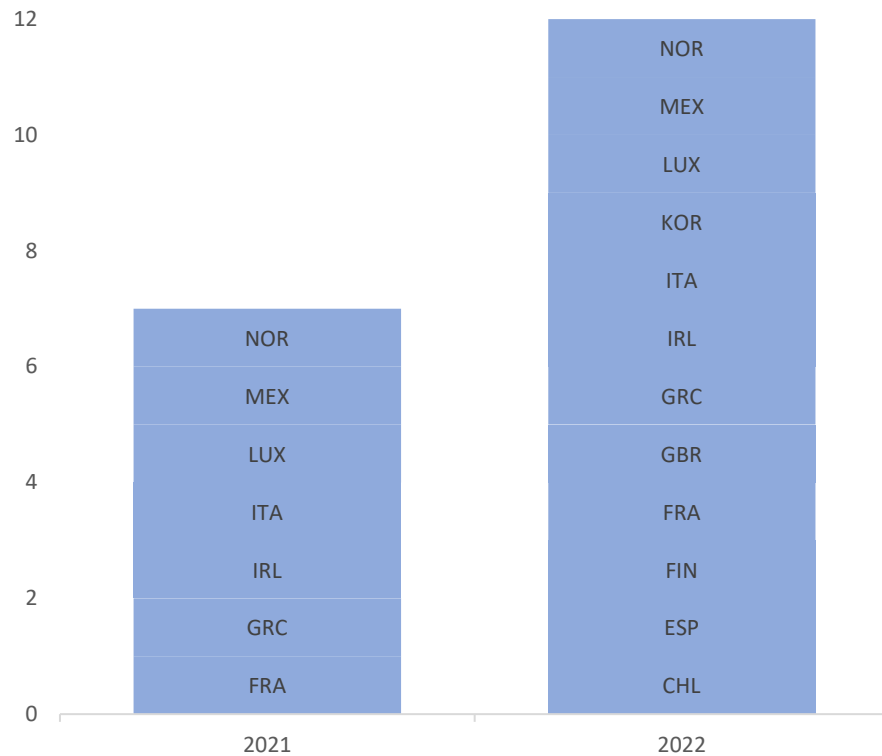
Climate expenditure/Green Budgeting

- Given the limitations of the current COFOG structure. There are several initiatives, for green budgeting/climate change expenditure classification, such as
 - the OECD Rio Markers methodology (OECD, 2006),
 - the European Union climate action taxonomy (EU, 2020), and
 - the Climate Public Expenditures and Institutional Review (CPEIR) methodology (UNDP, 2015).
 - The Biofin expenditure reviews
 - The IADB Handbook.
 - Also, some governments have adopted their own methodologies and classification systems (see World Bank [2020] for a review, and OECD [2023]).



Budget Tagging

Green tagging in OECD countries



- However, green budget tagging have considerable problems related to consistency and comparability.
- They do not achieve a minimum threshold to be considered an international statistical standard, therefore they cannot be used to compare across countries.
- Increased information on environmental expenditure information, therefore, faces a dilemma.



COFOG revision – an integrated approach

- Update the structure of the classification to meet new users' needs.
- Make the breakdowns more granular to cover important aspects
- Use methodological and compilation guidance from the SEEA-CF, the GFSM 2014, the SNA and the CEP as a basis .
- As well as international initiatives and taxonomies, e.g. Biofin
- Develop an integrated structure to deal with the classification of expenditure as a secondary purpose



The Extended COFOG Matrix

		Ex - Ante environment activities			Ex-post defensive activities			
Nº	Divisions	Mitig	Adapt.	Biodiversity	Emerg. and Relief	Recovery Investment	Sectoral "Tagged" Environment Expenditure	
1	General public services	<i>Secondary Environmental Expenditures identifying different categories and subcategories</i>					Division 1	
2	Defense						Division 2	
3	Public order and safety						Division 3	
4	Economic affairs						Division 4	
5	Environmental protection	<i>Primary Environmental Expenditures identifying different categories and subcategories</i>						
6	Housing	<i>Secondary Environmental Expenditures identifying different categories and subcategories</i>					Division 6	
7	Health						Division 7	
8	Recreation, culture, & religion						Division 8	
9	Education						Division 9	
10	Social protection						Division 10	
	Totals	<i>Total primary and secondary</i>						

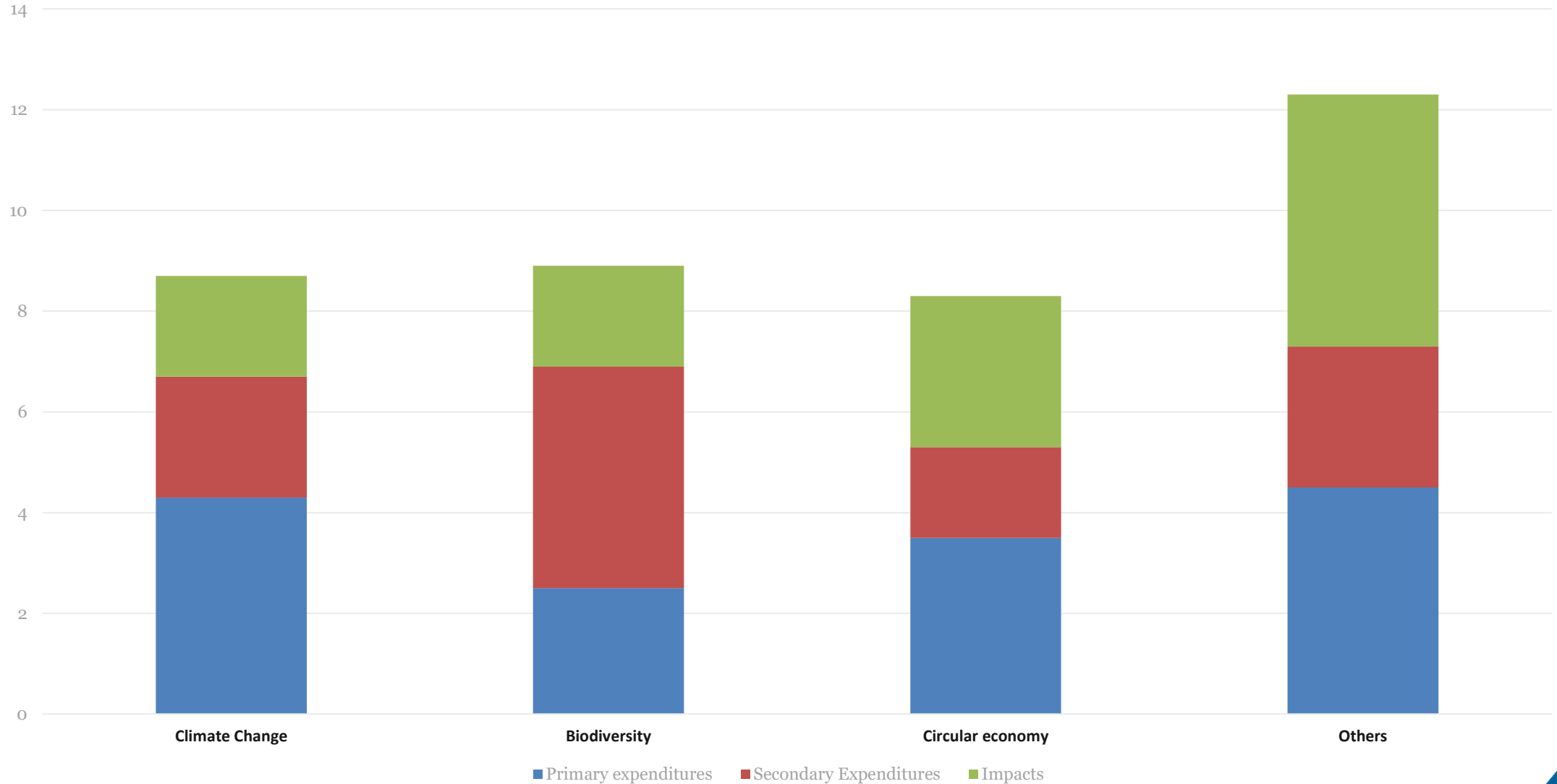


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Example of Environmental Expenditures by category





This approach would require

- Developing a new environmental division classification structure based on new environmental concerns.
- Recognise the need to establish guidelines for tagging efforts to converge into a common integrated structure.
 - Would require a comprehensive positive list of climate activities (eg EU taxonomy?)
- Develop a global recommendation of adopting a double classification approach (e.g. through the GFSM)



Thank you



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